

Washington County from **Boom** to Bust?

Washington County has generally loved its status as Utah's poster child for growth. Since 1970, Washington County's population has almost doubled every decade as affordable central air-conditioning made the desert more livable. To put this truly remarkable growth in perspective, remember that the U.S. population grew between 10 and 14 percent during the same decades the St. George area was experiencing 90-percent growth.

Astounding Growth

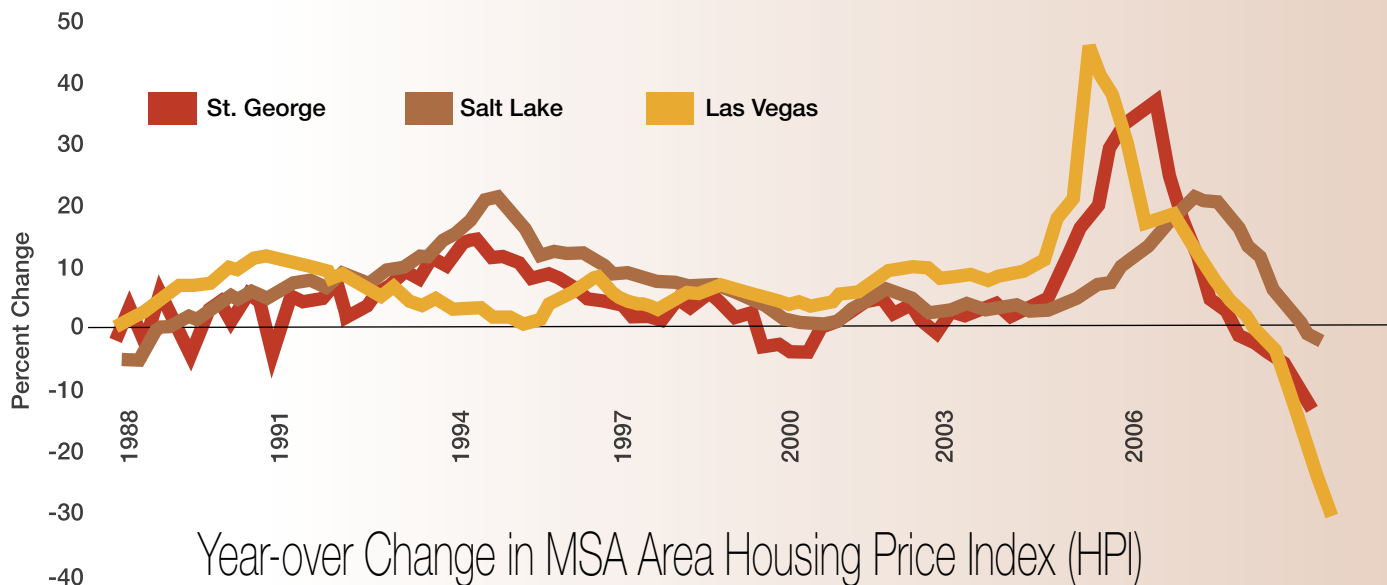
Population growth fueled economic growth. In the two decades prior to 2007, Washington County's annual nonfarm job growth never slipped below 3.4 percent. Even more remarkably, annual employment expansion averaged a whopping 8 percent between 1987 and 2007. Again some perspective—nationally over the same time period, annual job growth measured only 1.5 percent and never got above 3.2 percent.

As Washington County's mushrooming population qualified it as a Metropolitan Statistical Area, it flew to the top of many national rankings of economic prosperity and growth. The St. George area seemed the economic wunderkind of Utah—the recipient of perpetual economic favor. But trouble was brewing.

Warren Buffet: "When the masses get greedy, I get scared."

Construction and economic growth based on population expansion had kept the county on a firm footing for many years. However, the speculative





Source: Office of Federal Housing Enterprise Oversight, <http://www.ofheo.gov/hpi.aspx>

building frenzy that ensued in mid-decade sewed the seeds of short-term economic demise—in Washington County and across the nation.

In the past, true demand for homes as residences drove residential construction gains. But during the recent boom, speculative demand took control as investors of every ilk bought and built with the notion of “flipping” homes and properties to make a huge short-term profit. Developers, large investors, and individual home buyers (aided by short-sighted lenders) participated in bidding up real estate prices. Home and lot prices skyrocketed, wages did not.

That created a bubble, and at the peak of the bubble, the Office of Federal Housing Enterprise Oversight’s housing price index for the St. George MSA showed an annual increase of almost 40 percent (the Salt Lake index peaked at only 20 percent). Investors and lenders appeared to believe price increases would continue ad infinitum. They ignored the reality that the possibility of great profit is inexorably linked to the probability of great loss. The economy became unbalanced, as most working people could not truly afford homes.

Bubbles Eventually Pop

But, market forces cannot be thwarted forever. Bubble markets in crude oil, dot-com stocks and housing will eventually collapse to prices based on true demand. Washington County’s current market adjustment is not a pleasant one. Last year, Washington County lost jobs for the first time since 1974. In December 2008, employment was down 8 percent on a year-over basis (almost three-fourths of lost jobs were in construction).

Unemployment has reached levels not seen since the 1980s. Foreclosure rates are high, lots sit vacant, and in-migrants are scarce. And, before residential building can return with any force, lots and home inventories must be absorbed.

Any Good News?

Is there any good news for Washington County? Yes. Job surveys seem to indicate that employment losses bottomed out in the first quarter of 2009. Washington County typically

enters periods of economic slowdown earlier than the state and nation—but generally recovers sooner also. The housing market appears to be stabilizing. And finally, Washington County hasn’t lost the qualities that have made it attractive to in-migrants for 30 years. Once the market adjusts, the county’s economic growth should continue with some hard lessons learned. ❶

For more information: <http://jobs.utah.gov/jsp/wi/utalmis/gotoCounties.do>

Washington County hasn't lost the qualities that made it attractive for 30 years.